HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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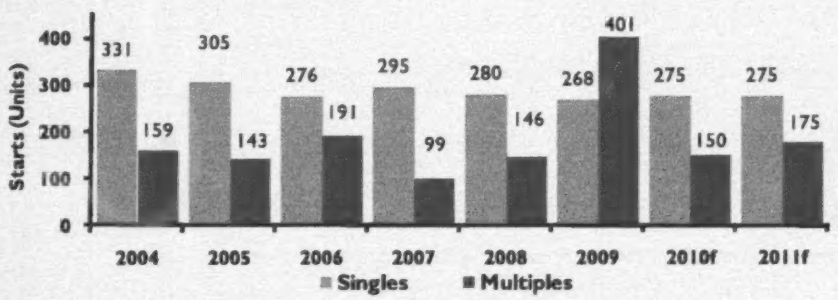
Housing Demand Remains Stable

Charlottetown's housing market will be stable over the next two years as positive economic growth returns after a slight decline in 2009. Although PEI experienced the smallest decline in economic growth of all the provinces, the rebound will also be less dramatic, resulting in one of the lowest growth forecasts in Canada for 2010 and 2011. The stability within a small market like Charlottetown means that declines, like advances, tend to be more modest.

While interest rates are expected to rise over the course of the year, they will remain near historic lows and will continue to benefit the housing market. It is expected that the anticipation of rate increases

Figure 1

Multiple Construction to Slow Over the Forecast Period



Source: CMHC

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may result in some demand for housing being brought forward into the first part of the year, but given the traditional stability of the Charlottetown market, it is not likely to be a significant shift as verified by data from the first quarter of the year.

Almost a quarter of employment in the province is found in retail trade and public administration, and this is significantly higher in the Capital region. The next largest industries are manufacturing (much of which is food related) and construction. Both of these are more sensitive to economic swings, but make up a much smaller proportion of total employment.

Employment in the Capital region reached a record level in 2008, at nearly 33,000. Last year recorded the first decline in over ten years. The year started out with a significant drop in employment, but by the last quarter, growth returned and the year ended at nearly the same level as 2007. The first quarter of 2010 recorded more than an eight per cent increase in employment, the highest level ever for that time of year. Approximately half of this growth is in part-time employment, which is less likely to generate increased demand for housing. On a provincial level, the majority of employment growth has been in part-time employment. The forecast for employment this year is 33,250, a new record high, followed by a slight increase next year.

The unemployment rate dropped to 6.6 per cent in 2007, and has since increased by a full percentage point in each of the past two years, reaching 8.6 per cent in 2009. The growth in employment compared to smaller labour force increases this year will result in the unemployment ratedropping back to 2008 levels around the 7.4 per cent range and remain there for 2011.

Figure 2

Source: PEI Real Estate Board, CMHC Forecast
MLS® is a registered trademark of the Canadian Real Estate Association

Migration to the Capital region has been a positive factor for housing, especially in 2009, and expectations point to another year of positive net-migration in 2010. International migration to the province, and particularly to the Charlottetown area, will make up the majority of population growth over the forecast period. Although specific provincial programs which enhanced and encouraged this area of population growth have ended, there are a significant number of people who have been approved, but have not yet moved. These people still have the option of moving to PEI, but there is a time limit and the likelihood of making that transition will be reduced if not done this year.

Traditionally, residents have moved westward in search of employment, but opportunities decreased in the economic downturn and some people have returned. This provided a boost to net migration numbers in 2008 and the first half of last year, but the resurgence of work in oil related industries has enticed many to go back out west.

Mortgage Rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the Overnight Rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy

recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

MLS® Sales Remain Stable

The ten year average of residential MLS® sales in the Charlottetown area is 570 units, and over the past eight years, the annual tally has been remarkably close to that figure. In spite of the fact that housing markets have been strong across the country during this period, sales in the Capital region stayed within a tight range. Provincially, sales peaked in 2007 with an increase of 18 per cent. Sales in the Charlottetown market peaked that same year, but the increase recorded was only 2.5 per cent. The next year (2008) provincial MLS® sales dropped by 20 per cent while the Capital region declined by less than half that amount, at 8.5 per cent. This reconfirms the stability of the Charlottetown CA market.

Demand for resale homes is expected to drop slightly over the forecast period (2010-2011) as employment and household growth remain near current levels. MLS® sales are expected to decline slightly this year to 550 and remain at that level next year. Mortgage rates will be moving upward during this time frame. Although the increases are not expected to be large, the fact that they are moving up after an extended period of declines may impact demand for housing.

The average sales price will increase again this year and next, though at much smaller increments than seen in the past. One of the reasons for this is the slightly reduced demand. Another reason is because of the higher priced sub-markets becoming a more "normal" aspect of the market. Average sales prices are expected to come in at $180,000 this year, and $185,000 in 2011.

In spite of the fact that higher priced sub-markets tend to drive up the average price, almost 70 per cent of MLS® sales in the Charlottetown CA are under $200,000. Sales of existing homes which are over $250,000 only make up 17 per cent of total sales. As home prices increase, it creates challenges for some first-time homebuyers. To meet the demand for these buyers, there are other housing types and locations which offer various options, including semi-detached units, and un-incorporated areas of the Charlottetown CA which typically command lower prices. Also, it should be noted that 43 per cent of sales in 2009 were under $150,000, indicating that a significant portion of the market is reasonably priced for first-time home buyers.

Apartment Construction to Decline

Total new home construction in the Charlottetown CA will decline by 36 per cent this year as rental unit starts come down from extraordinary levels in 2009. The forecast for this year is 150 multiple units to be started, which equates to a 63 per cent decrease from the 401 units started last year. The level of multiple construction in 2009 was more than double the ten year average, and was not sustainable. Historically low interest rates, with the knowledge of increasing rates on the way, encouraged a surge in apartment construction as developers decided to get out in front and lead demand. Normally, new development would be in response to increased rental demand, with only a few projects being built in anticipation of demand.

Single-detached starts have been very stable since 2006, falling in the 268 to 295 unit range. Expectations for this year and next point toward a continuation of that pattern, with 275 units forecast for each year. The trend toward larger, more elaborate homes has pushed average new home prices up significantly, but this is mostly driven by specific sub-markets. The fact remains that about 60 per cent of new homes in 2009 fell in the $150,000 to $250,000 price range. As demand stabilizes and mortgage rates advance, average prices will move far more incrementally than in the past.

Vacancy Rates on the Rise

Vacancy rates started to rise last year as the increase in new units began to impact the market. The rate advanced from 2.3 per cent in October of 2008 to 3.4 per cent last October. This trend will continue as the vast majority of new rental units built last year will not begin to impact the vacancy rate until this year. The increased level of construction and new supply will lead to vacancy rates increasing to an expected 4.5 per cent this year and 5.0 per cent in 2011.

Average rents will increase as a result of the 2.0 per cent allowable rent increase approved by the Island Regulatory and Appeals Commission for 2010, but more significantly due to the large number of new units entering the market at higher prices. Two bedroom average rents are expected to be $720 this year and $735 in 2011.

Forecast Summary
Charlottetown CA
Spring 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	650	595	575	550	-4.3	550	0.0
MLS® New Listings	817	975	786	940	19.6	900	-4.3
MLS® Average Price ($)	166,244	175,231	177,237	180,000	1.6	185,000	2.8
New Home Market							
Starts:							
Single-Detached	295	280	268	275	2.6	275	0.0
Multiples	99	146	401	150	-62.6	175	16.7
Starts - Total	394	426	669	425	-36.5	450	5.9
Average Price ($):							
Single-Detached	192,477	207,361	242,674	250,000	3.0	255,000	2.0
Median Price ($):							
Single-Detached	180,000	200,000	210,000	216,300	3.0	222,800	3.0
New Housing Price Index (% chg.)	1.3	1.4	0.9	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.3	2.3	3.4	4.5	1.1	5.0	0.5
Two-bedroom Average Rent (October) ($)	659	672	701	720	-	735	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level (,000)	32,450	32,925	32,525	33,250	2.2	33,583	1.0
Employment Growth (%)	0.9	1.5	-1.2	2.2	-	1.0	-
Unemployment Rate (%)	6.6	7.6	8.6	7.4	-	7.6	-
Net Migration (P.E.I.)	384	384	1,203	1,525	26.8	825	-45.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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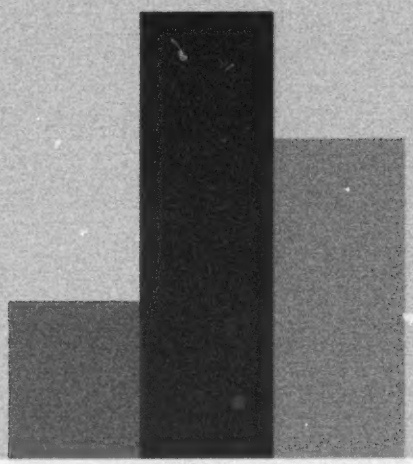

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